



# FILM FORWARD

A SMARTER ENTERTAINMENT PROGRAM FOR LOUISIANA

# GOV. EDWARDS TASKED LED WITH THE MISSION TO DEVELOP RECOMMENDATIONS THAT IMPROVE THE MOTION PICTURE INCENTIVE PROGRAM

When evaluating potential changes, LED defined four primary evaluation criteria that are addressed in the recommendations:

Sustainability	<ul style="list-style-type: none"><li>▪ Efficient use of resources that provides long-term benefits to the state</li><li>▪ Long-term development that attracts investment and creates permanent jobs</li><li>▪ Ensuring industry can eventually survive without state subsidy or financial aid</li></ul>
Return on Investment	<ul style="list-style-type: none"><li>▪ Impact to the state treasury – money spent on credits vs. money received in tax revenues attributable to in-state film production</li></ul>
Statewide Impact	<ul style="list-style-type: none"><li>▪ Economic benefit of the incentivized activity reaches all state regions</li><li>▪ Incentive provides opportunity for statewide industry development</li></ul>
Predictability	<ul style="list-style-type: none"><li>▪ Overall annual program cost to the state is pre-determined and will improve long-term budgeting</li></ul>

## LED EMPLOYED A VARIETY OF METHODS TO INFORM ITS PLANS TO IMPROVE THE INCENTIVE PROGRAM

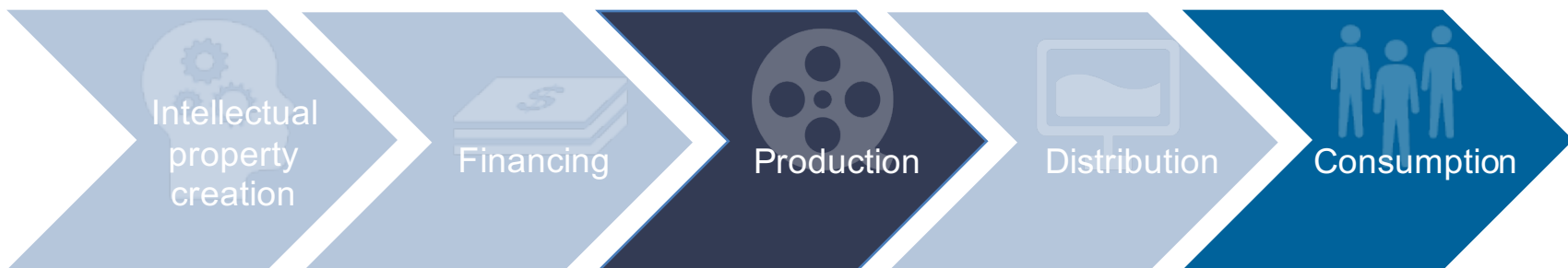
- **Internal opportunity analysis:** Determined what size, type of production provides the most value; identify niche markets and trends in the industry that will help determine future opportunities through, SWOT, case study and market analysis
- **Benchmarking:** Reviewed and analyzed other models for entertainment industry development nationally and internationally, either in whole or in part, that have been successful in attaining the goals outlined above.
- **Stakeholder input:** LED gathered input from industry stakeholders and experts, including an online questionnaire, regional meetings and meetings with industry experts both in and out of Louisiana
- **Economic Impact Study:** Dr. Loren Scott conducted the mandated biennial economic impact analysis.

# LED BEGAN BY IDENTIFYING THE GAPS IN LA'S FILM INDUSTRY SUPPLY CHAIN AND DETERMINING WHERE THE STATE FINDS THE MOST VALUE

## Filling the gaps in the state's film production value stream:

- The state has built a robust infrastructure of goods and services that support film production activity, but little else within that value chain.
- Consumer consumption of entertainment content is growing at a rapid pace and the ability to get that product to market has changed dramatically due to technological advances and consumer viewing trends. (streaming, Netflix, Amazon etc.) This provides a unique opportunity for Louisiana.

*\* light blue represents a gap in Louisiana's film industry*



## Where the state gains the most value:

- Full-time permanent jobs
- Companies with long-term commitment to the state
- Production with long-term commitment to the state
- Louisiana content creation and production

# LED CREATED RECOMMENDATIONS THAT FOCUS ON FIVE BASIC PRINCIPLES

1. Limit the amount of credits the state will **issue at a lesser amount than redeemed** and **work within the budget** the Legislature provides
2. Create **full-time permanent** jobs
3. Incentivize investment in and production of **Louisiana intellectual property**
4. Provide **a stable tax credit market** by insuring production activity continues while backlog of credits is reduced
5. Continue to attract film production by **remaining competitive**, and leverage that activity better to create **a more sustainable and indigenous entertainment industry**

# OVERVIEW: RECOMMENDATIONS ARE DESIGNED TO STRENGTHEN LA'S FILM INDUSTRY AND CONTAIN COSTS BY STAYING WITHIN THE PROGRAMS TOTAL CREDIT ISSUANCE CAP

■ Criteria addressed

Policy Type	Issues Addressed	LED's Recommendation
<b>1 Company-Based Recommendation</b> <div> <input checked="" type="checkbox"/> Sustainability  <input checked="" type="checkbox"/> ROI  <input checked="" type="checkbox"/> Statewide Impact  <input type="checkbox"/> Predictability         </div>	<ul style="list-style-type: none"> <li>▪ Lack of industry sustainability without incentive</li> <li>▪ Minimum amounts of permanent jobs created</li> <li>▪ Gaps within the production value stream are not captured in present program</li> </ul>	<p><b>Five percent of the film incentive cap (\$8.25MM of the \$165MM) will be allocated to a company-based payroll credit incentive for creating new jobs in the entertainment industry.</b> The credit will have a similar structure as the Quality Jobs program and will require a minimum of five full time jobs</p> <p>Payroll credit will be based on each employee's annual salary:</p> <ul style="list-style-type: none"> <li>▪ Tier 1: 10% payroll for jobs that pay between \$44K-\$66K</li> <li>▪ Tier 2: 20% payroll for jobs that pay between \$66K-\$200K</li> </ul>
<b>2 Funding Mechanism Recommendation</b> <div> <input checked="" type="checkbox"/> Sustainability  <input checked="" type="checkbox"/> ROI  <input checked="" type="checkbox"/> Statewide Impact  <input checked="" type="checkbox"/> Predictability         </div>	<ul style="list-style-type: none"> <li>▪ Lack of dedicated funding for development and education</li> <li>▪ Lack of funding for indigenous filmmakers</li> <li>▪ No dedicated deal closing funds specific to the industry</li> </ul>	<p><b>Increase the state buy-back from 85% to 92%, of which 2% is a transfer fee charged to the production.</b> Transfer fee will be shared by LDR and LED</p> <p>Funding from the transfer fee would go to (40%) education initiatives, (25%) loan guarantee program, (25%) deal-closing fund, and (10%) a Louisiana Filmmakers matching grant.</p>
<b>3 Project-Based Recommendation</b> <div> <input type="checkbox"/> Sustainability  <input checked="" type="checkbox"/> ROI  <input checked="" type="checkbox"/> Statewide Impact  <input checked="" type="checkbox"/> Predictability         </div>	<ul style="list-style-type: none"> <li>▪ Lack of VFX and digital arts skills in the state</li> <li>▪ Productions localized to only a few metro areas</li> <li>▪ State has an unlimited tax credit liability</li> <li>▪ Lack of ability to grow local content creators</li> </ul>	<div> <div> <b>A. Credit Revisions</b> <ul style="list-style-type: none"> <li>▪ Reduce base credit to 25%</li> <li>▪ Add 5% outside NOLA zone</li> <li>▪ Add 10% for LA resident screenplay production</li> <li>▪ Add 5% on VFX post services</li> <li>▪ Reduce per project cap to \$20M</li> <li>▪ Reduce spend threshold to \$50K</li> <li>▪ 40% maximum total credit granted except for La. resident screenplay production</li> </ul> </div> <div> <b>B. Program Changes</b> <ul style="list-style-type: none"> <li>▪ Episodic Television Certification</li> <li>▪ Eliminate pass-through business</li> <li>▪ LA resident definition</li> <li>▪ Forced withholding</li> <li>▪ Logo / marketing</li> <li>▪ Design / commercial initial cert.</li> <li>▪ CPA fee schedule</li> </ul> </div> </div>

# AGENDA

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## COMPANY-BASED RECOMMENDATION

FUNDING MECHANISM RECOMMENDATION

PROJECT-BASED RECOMMENDATION

# 1. COMPANY-BASED RECOMMENDATION

The company-based portion of the film cap will help attract permanent jobs to Louisiana

## How will the incentive work?

- **Five percent of the film incentive cap (\$8.25MM) will be allocated towards a company-based incentive. The rest of the \$165MM cap (\$156.75MM) will remain for productions**
- If any part of the the company-based portion of the incentive goes unused, that portion will rollover to the next year
- If the company-based cap is met, the companies that did not receive the credit will be first in line the next year

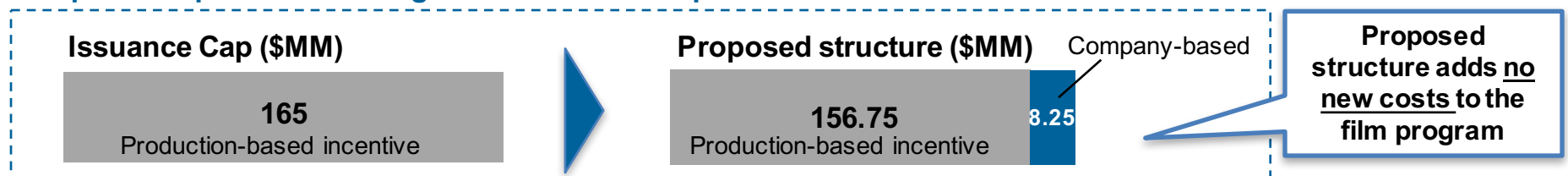
## Who will be eligible?

- **Only companies in the ‘digital entertainment’ industries will be eligible for the incentive.** Qualified entertainment company is defined as a company engaged in the development and distribution of audio and/or visual entertainment product for public consumption. The Secretary of LED will have final discretion regarding eligibility
- **A company must create a minimum of 5 net new jobs to be eligible for the incentive**

## How will the incentive be structured?

- The incentive amount will be based on a company’s payroll and, like Quality Jobs, will be structured as a five-year contract with the potential for a five-year renewal – total of ten years
- The payroll credit received will be based **on each employee’s annual salary** (W2 wages):
  - Tier 1: 10% of payroll for jobs that pay between \$44,164\* – \$66,245 annually, OR
  - Tier 2: 20% of payroll for jobs that pay more than \$66,246 - \$200,000 annually (*over \$200,000 salary would not qualify for the credit*)
- **Companies that receive the incentive will be required to commit to remaining in the State for a defined number of years. If the company does not stay the defined amount of time, it will be subject to a claw-back of the incentive**

## Proposed cap structure using \$165M issuance cap for illustration:



\* Salary requirements are set according to the current La. median wage of \$44,164. Tier 2 minimum is currently set at 50% increase over the Louisiana median wage.



# AGENDA

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COMPANY-BASED RECOMMENDATION

**FUNDING MECHANISM RECOMMENDATION**

PROJECT-BASED RECOMMENDATION

## 2. FUNDING MECHANISM RECOMMENDATION

The self-generated funding mechanism creates funds for education and Indigenous film- related initiatives at no additional cost

### How will the funding mechanism work?

- Increase the transfer back to the state (buy-back) to 92%, of which 2% is a transfer fee charged to the production company
- Transfer fee will be shared by LDR and LED
- 92% buy back will increase the utilization rate and therefore increase the savings to the program
- LED currently administers similar programs and will absorb new programs at no additional cost to the state

### How will the funding mechanism be structured?

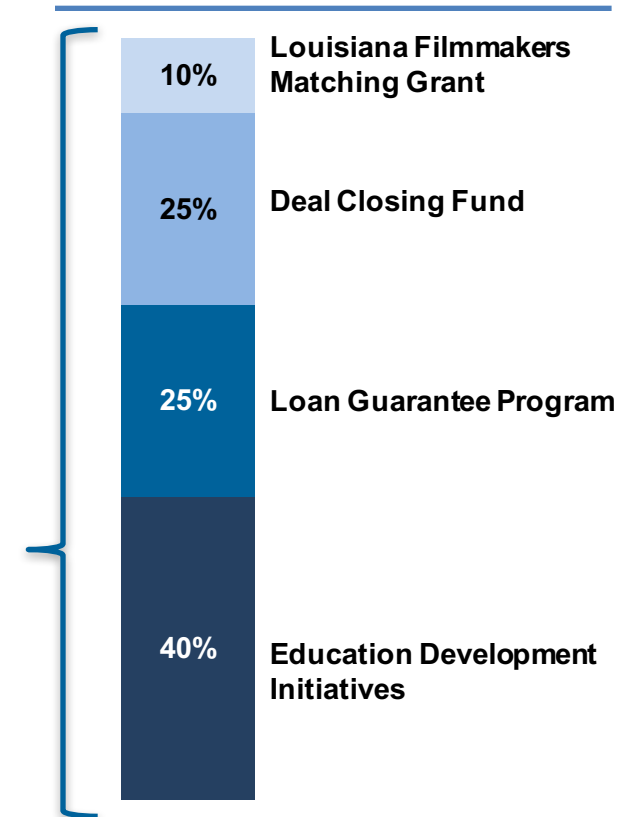
- Funds are derived from the 2% transfer fee paid by productions for state buy-back at 92%
- Estimated yield at 50% utilization rate of \$165M in credits is **\$1.65M annually** (estimates do not account for LDR share of the fee)

*See graph (right) for dedication of the transfer fee and annual yield estimates*

### The benefits of the state buy-back proposal:

- + Will be paid for by production companies receiving tax credits
- + Provides much needed funds for important education and economic development programs and initiatives for Louisianans
- + Creates a more predictable fiscal impact and timeframe of redemption
- + Potentially saves the program \$14M a year ( $\$180M \times 8\%$ ) and will provide opportunity for state to reduce back log of credits

### Estimated Transfer Fee Breakdown



# AGENDA

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COMPANY-BASED RECOMMENDATION

FUNDING MECHANISM RECOMMENDATION

**PROJECT-BASED RECOMMENDATION**

### 3. PROJECT-BASED RECOMMENDATION

#### Credit revisions to project-based portion of the film program will shift credits to more valuable film production activity

Credit Revision:	Details:	Rationale:
<b>Reduce base credit</b>	<ul style="list-style-type: none"> <li>Reduce base credit to 25% on qualified instate expenditures</li> </ul>	<ul style="list-style-type: none"> <li>Value to market remains the same, because of the increased buy back</li> </ul>
<b>Additional credits on most-value expenditures</b>	<ul style="list-style-type: none"> <li>Additional 5% on base credit for productions outside the New Orleans area</li> <li>Additional 10% on base credit for productions under \$5M that are based on a Louisiana resident screenplay (reduction of present law of 15% for all LA. screenplay production)</li> <li>Additional 5% on base credit on VFX post services performed by qualified Louisiana VFX company (as determined by rule) when a minimum of 75% of entire production costs occur in the state</li> <li>Additional 10% for Louisiana resident wages (present law)</li> <li>Additional 15% for Louisiana music expenditures (present law)</li> <li>40% maximum credit granted except for La. Resident screenplay production.</li> </ul>	<ul style="list-style-type: none"> <li>Provides better use of cap space while still remaining competitive</li> <li>Will incentivize investment in local films and help grow Louisiana talent</li> <li>VFX jobs tend to be full time &amp; skill set is transferable to AR / VR / Animation.</li> <li>Will build needed digital art skilled workforce</li> <li>Will help grow Louisiana filmmakers - a missing piece of the Louisiana value chain</li> </ul>
<b>Per project cap</b>	<ul style="list-style-type: none"> <li>Lower the per project cap to \$20M (less than 15 projects have received more than \$20M in the history of the program)</li> <li>Exempt episodic television from the per project cap, (LED has the discretion to structure pay out of credits)</li> </ul>	<ul style="list-style-type: none"> <li>Ensures the program cap is not used by only a few large projects</li> <li>Episodic TV provides better ROI, structured payout of credits will be negotiated at initial certification</li> </ul>
<b>Lower threshold</b>	<ul style="list-style-type: none"> <li>Lower the spend threshold to \$50K for all projects</li> </ul>	<ul style="list-style-type: none"> <li>Provides opportunity for small projects, which tend to be local, to take advantage of the program - including La. commercial houses and eliminates the need to slate productions.</li> </ul>

### 3. PROJECT-BASED RECOMMENDATION

Program revisions tighten the current incentive and increase the value of the projects for the state		
Program Revision:	Details:	Rationale:
<b>Eliminate pass-through businesses</b>	<ul style="list-style-type: none"> <li>Redefine source within the state - goods and services rendered by a company located in the state</li> </ul>	This will eliminate a “loop-hole” in state law that allows companies with minimal investment to act as agents to purchase goods that may not be sourced from within the state OR for companies with no state nexus to provide services
<b>Episodic television</b>	<ul style="list-style-type: none"> <li>Create a special scripted TV/series initial certification for episodic television with five year commitment</li> </ul>	We typically see better ROI and longer term impact for these types of productions
<b>Louisiana resident definition</b>	<ul style="list-style-type: none"> <li>Return to pre-2015 statutory language; that a Louisiana resident is required to live in the state for 6 months in the aggregate</li> <li>Add that the resident is required to file a La. resident income tax return</li> </ul>	Present law requires 12 consecutive months of residency, which is impossible to administer or determine. By adding that a resident is required to file a LA resident tax return, it ensures La. residency and eliminates opportunity for fraud and abuse
<b>Forced withholding</b>	<ul style="list-style-type: none"> <li>Revise so that law forces withholdings on loan-out companies and non-residents only. (2015 law and subsequent 2016 changes force residents who already withhold at their chosen rates to withhold at the highest rate)</li> </ul>	This is a house keeping measure that eliminates the unintended consequences of 2015 statutory changes that penalized Louisiana labor

### 3. PROJECT-BASED RECOMMENDATION

Program revisions tighten the current incentive and increase the value of the projects for the state

Program Revision:	Details:	Rationale:
<b>Logo/ marketing</b>	<ul style="list-style-type: none"> <li>Revise present law back to the original logo requirement before 2015 statutory changes that mandates a specific logo within the productions end credits</li> <li>Provide an option for an alternative to the logo requirement that allows the production to participate in an educational/workforce development endeavor (internship, mentorship, speaking series, master class etc.)</li> </ul>	The present law has resulted in productions opting out of using the state logo in the end credits in favor of alternative marketing option. By requiring either a logo placement or participation in an education initiative, the state receives greater value
<b>CPA fee schedule</b>	<ul style="list-style-type: none"> <li>Reduce initial up-front deposit amount for lower spending thresholds.</li> </ul>	Existing deposit amounts are prohibitive for small indigenous filmmakers

# CONTACT

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